

**PROPERTY TAX
INTERIM COMMITTEE
PUBLIC HEARINGS
JULY 28, 2005
MOSCOW**

Committee members present were Cochairman Senator Shawn Keough, Cochairman Representative Dennis Lake, Senator John Goedde, Senator Brad Little, Senator Tim Corder, Senator Monty Pearce, Senator David Langhorst, Senator Elliot Werk, Representative Bill Deal, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Sayler. Representative Gary Collins and Representative Mike Moyle were absent and excused. Staff members present for all meetings were Mike Nugent, Jason Hancock and Toni Hobbs.

In Moscow people that signed in to testify were Don Palmer; Jack Miller; James and Zoe Corley and Tom Strochein. There were about 50 people in attendance at this meeting including former Speaker of the House Tom Boyd.

This meeting was called to order by **Representative Dennis Lake** at 1:00 p.m. After opening remarks by the cochairmen, **Mr. Jason Hancock, Legislative Services** was introduced to give a short property tax presentation.

Mr. Hancock explained that there are two models used for determining property taxes; the budget model and the rate model. The budget model is used by all taxing districts in Idaho while the rate model is only used to determine the percentage of property taxes that go to school maintenance and operations. All other types of School District property tax levies (bond, supplemental, plant facilities, etc.) use the Budget Model.

Property taxes in Idaho fund local government only. \$1.14 billion in property taxes was collected in 2004. In 2002, Idaho ranked 31st among states, in terms of percentage of income paid in property taxes, or about 10% less than the national average. **Mr. Hancock** explained that this ranking is somewhat misleading

because several states do not have all of the same taxes as Idaho.

After giving some examples, **Mr. Hancock** explained that the budget model is like a balloon. If taxable property value is exempted from the tax base, the property tax bill is shifted to other property taxpayers – the local taxing district is held harmless. Under the Rate Model (School District M&O levy), exempting taxable property from the tax base does not cause a shift to other property taxpayers – the loss of tax revenues is absorbed by the School District.

Mr. Hancock explained that there are two main reasons why residential property taxes are increasing rapidly in most taxing jurisdictions.

One is the frozen nature of the 50-50 homeowner's exemption, which causes a home's increase in taxable value to exceed the home's increase in assessed value.

The second is the Public Schools M&O levy rate, which does not decrease when property values rise rapidly, as do other, budget-driven levies.

Mr. Hancock's complete presentation will be available as an attachment to these minutes at: www.legislature.idaho.gov.

Representative Lake said that the purpose of having **Mr. Hancock's** presentation was to try answer the question of how the property valuation equates to the property tax bill. He explained that Idaho's tax system is known as the "three legged stool made up of property tax, income tax and sales tax. He added that Idaho has a constitutional framework within which it has to work.

Representative Lake stated that the committee is holding these meetings to listen to citizens regarding property taxes and to listen to suggestions for solutions to the problem. He said that after hearing from citizens in 12 communities throughout Idaho, the committee will meet again this fall to sort through the testimony to decide whether legislation should move forward. The committee will make a report, regardless of whether legislation is prepared, that will go to the entire legislature. He explained that tax bills start in the House Revenue and Taxation Committee of which he is the Vice-Chairman.

Representative Lake noted that there is also an initiative process that is being talked about across the state and in his opinion this is a tandem process for those

that feel that the legislature is not progressing as it should.

After Jason's presentation public testimony began.

Ms. Sue Scott

She stated that property taxes are largely paid by individuals with the majority of the burden going to residential property owners. There are not enough businesses in Idaho to make up for the large increases in residential property taxes. In her opinion the problem with property taxes is that those paying them are paying them based on values that are controlled and determined by outside forces. If a person has a low income and a modest house, the property value of your home can increase without regard to your income. She suggested taking all non-profit organizations and tax their land only, not the structure. Charging tax only on the land of these organization is much lower than on the structure but it would still allow the amount of property tax needed from residential property owners to be reduced. This would help spread the cost and make property taxes more fair.

Mr. Gail Biggers

He stated that he is a disabled veteran and his property value did go up about \$12,000 this year. He is not as concerned about that as he is about funding libraries and school districts in the area. He said that in addition to his taxes he actually gave about \$200 to the White Pine School District because they did not have enough money to operate on. The question is how to pay for the services in order to allow people to take advantage of them.

Mr. Biggers said that he is a volunteer member of his library committee. The county library system has seven branches and they do not have money to operate. People have to be laid off and there are no maintenance services or janitors.

Mr. Paul Kimmell - Latah County Commissioner

He said that property taxes drive local government including law enforcement and courts. Almost ½ of Latah County's budget is generated from property taxes. They also fund our public school systems, libraries, highway districts, parks cemeteries and other important local services and programs.

Mr. Kimmell said he has sat through seven Board of Equalization hearings listening to homeowners, businesses, farmers, timber companies and utilities express concern over the excessive valuation of their property. During these

hearings commissioners assure these people that they are only complying with Idaho Code and the need to assess all properties at market value. The commissioners also assure people that an increase in property value does not necessarily mean an increase in property tax.

This problem is the problem of local government, schools, taxing district and the state government as well. It is also the citizen's problem who continue to demand more services and programs without regard for spending limits already in place.

Mr. Kimmell said that Latah County will be in serious trouble if a 1% or 2% initiative were implemented. Currently the assessed value in the county is about \$1.4 billion and they collected about \$26 million in property taxes. If a 1% or 2% initiative were implemented with capped values and tax increases, the county would only receive \$14 million in property taxes for services.

Mr. Kimmell suggested that the committee seriously consider more latitude in local option sales tax use. This gives local property owners the ability to vote in additional sales tax for both property tax relief and local public projects.

In response to a question from **Representative Jaquet** regarding the state paying part of the cost of high profile murder cases, **Mr. Kimmell** said he was not sure about that but a high profile case can devastate a small county.

Representative Jaquet asked if the County Commissioners had discussed the idea of regional district attorneys to prosecute capital cases in the area. **Mr. Kimmell** said they had not talked about that specifically. They did discuss shared employees with the Supreme Court.

Representative Lake asked if the Latah County Commissioners have a problem sitting as the Board of Equalization. **Mr. Kimmell** said no. In his opinion, this grounds them in reality when those people come to those hearings. Those people pay the commissioner's salaries and pay for the services provided by the county and it is important to have that one on one interaction.

Ms. Linda Shepard

She said she is a property owner and a business owner in Idaho. Her family also owns farm land in the area. She went before the Board of Equalization on behalf of her family's property because the values increased at least \$5,000.

She said that even though the commissioners at the Board of Equalization hearing turned down her request, she has the most ultimate respect for them. She asked why property values are increasing so rapidly. The commissioners listened and analyzed her issue and the message she heard was that state and federal government has dictated how much Latah County property values should be. In her opinion this is unacceptable. **Ms. Shepard** asked if property taxes support local government and services, why does the state decide what the market value of property should be.

Ms. Shepard added that she is afraid that she will not be able to afford to pay her property taxes in the future.

Senator Goedde asked why the state or federal government would have any vested interest in setting property values abnormally high. **Ms. Shepard** said that the Board of Equalization said that the assessor's office determined the value increase of her family farm property based on federal and state guidelines that they are required to use. **Senator Goedde** said that in his opinion the state is only involved to make sure the market values are equal throughout the state because the state constitution requires it.

In response to a question from **Senator Langhorst, County Commissioner Kimmell** explained that the timber formula the assessor's office receives comes from the state tax commission through a legislative process. **Mr. Kimmell** stated that **Ms. Shepard** is probably referring to soil classifications from the USDA regarding productivity types that caused her farm property value to increase. He added that the formula is very complicated and includes many other variables besides soil classifications. Each county still has to send out field appraisers to look at individual sites so there is still some subjectivity involved. **Senator Langhorst** said that he wants to make sure that the use of these soil classifications is being applied broadly and fairly. **Mr. Kimmell** said that generally speaking these are being applied fairly uniform across the state. The problems arise when people have pasture land that is being classified as excellent soil when actually it would be way too wet to support crops or something similar that is very site specific to certain land. There is not a lot of leeway for the Boards of Equalization to make adjustments for those issues.

Ms. Janice McPherson - Director of the Latah County Library District
Ms. McPherson stated that the median value of an owner-occupied home in Latah

County is \$106,300, the taxes that would come to the library district from that property would be one copy of the new Harry Potter book.

The largest taxpayer in the county is the Potlatch Corporation. They will pay \$20,464 which would cover the salary and benefits of one half time position in the library district.

About ½ of the population has a library card that they have used within the last three years. Every month over 1,000 youth attend story times throughout the district.

Ms. McPherson said that the Latah County Library District will receive approximately \$771,520 this fiscal year in property taxes and those property taxes account for 91% of the Library District's total revenue.

According to **Ms. McPherson**, public libraries are good. They are the only tax supported service that provides access to information for everyone regardless of age or income. A healthy and vital democracy is dependent upon educated and informed citizens. Many of these citizens cannot afford to purchase the variety of information sources that are necessary for a person to be truly informed. Even people who can afford to buy books choose not to because once read they have no further use for the book, so why waste the money on the purchase.

Public schools are there only for school age children, so where does one go if they are too young or too old for school? They go to the public library. Idaho public libraries in 2004 circulated 9,909,917 items to 6,339,728 people. This equates to each man, woman and child in Idaho checking out 8.2 items per year. Per capita each person is getting over \$200 of value (based on a \$25 average cost of an item) from Idaho's public libraries.

School age children use the public library to supplement their school libraries, especially since public libraries are open hours that school libraries are closed. Homeschoolers rely even more on public libraries for their information needs.

Ms. McPherson added that economic development is yet another way public libraries help support the overall good. This is done by providing research materials to those wanting to start small businesses as well as by drawing people, especially in rural areas, to town to borrow materials from the library. While in

town they stop by the store to pick up other items.

Property taxes are disliked by all but they are a necessary evil in a society that depends on and demands that public services be provided.

Ms. McPherson stated that the Latah County Library District is very near the maximum levy amount of \$.60 per \$1,000 assessed value. The district has been unsuccessful in getting the law changed so Latah County voters can decide for themselves if they want to pay more taxes to support their libraries. Even with the 3% increase allowed each year, the Library District is faced with difficult budget issues. By the time salaries and benefits are paid along with operating expenses they have very little left to purchase new materials. Without eliminating staff, there is no where left to cut. This will lead to reduced hours and may ultimately lead to closure of some libraries.

She reminded the committee to remember as they deliberate what to do about the property tax issues, that if property taxes are taken away from library districts, the people who suffer the most are the young, the elderly and the poor.

Senator Little stated that the Emmett Library District is also facing the same problems discussed above. He said that area has discussed an ad valorem tax on residential improvements only to be earmarked for library districts. He asked if they had considered anything similar. **Ms. McPherson** said the Latah County Library District has not discussed that specifically.

Ms. April Webber -Troy

She is a teacher in Troy, Idaho, and said she has had a public library card since she could sign her name. She wanted the committee to be sure what will be lost if tax revenues are decreased.

Many children take advantage of public library summer reading programs. As a public school teacher she is aware that many students cannot afford to buy books and this makes the public library very important.

Representative Lake commented that the library district in his area has a joint public school library that works very well.

Mr. Pat Eck - Boville

He stated that local control is very important to small communities. He said that last March, Boville, after building a very nice public library from a church that was closed, was faced with the possible closure of that facility. The community got behind the library and did a lot of fund raising to keep it open.

Mr. Eck said whatever the committee decides to do to solve this property tax issue, they need to be careful to do no harm to these small communities. They need their library and their public school and all of the things society provides through government and taxation.

He suggested the committee look at all of the tax exemptions that exist and see if that could be used to replace residential property taxes. **Mr. Eck** said that Representative Tom Trail has a plan that seems to be on the right track. In his opinion the system needs to be fine tuned. He added that those doing the fine tuning need to listen to the people and let them decide what they want. Let the people decide if they want to pay more of their taxes to library districts and such.

Mr. Jack Miller - University of Idaho Law School Professor

He served as Dean of the Law School for seven years. He said that property tax as compared to sales tax and income tax is the most inherently unfair because it does not look at people's ability to pay or their cash flow. It is a classic case of a tax that can hurt someone who is land rich and cash poor. With respect to people's homes, it is not necessarily beneficial to a person to have their home increase in value if all they want to do is live in it.

Mr. Miller stated that the budget model that was described in **Mr. Hancock's** presentation is a very rational approach to property taxation, if a property tax is necessary. In his opinion the problem the library districts are having has to do with their budgets being set too low, not the property tax system. According to **Mr. Miller**, the system to taxation is perfectly reasonable because as assessments go up, if they go up dramatically, taxes do not go up dramatically, the rates actually go down and the increase in revenue is gradual in nature.

He suggested moving the school M&O levy away from the rate model and over to the budget model because this is the one area in which an immediate increase in a person's assessment will be mirrored precisely by an increase in your taxes.

He also suggested indexing the homeowner's exemption for inflation. So that it

bears some relationship to current value.

Mr. Miller said the main reason he wanted to speak was to speak in opposition of shifting our property tax system to something like Proposition 13. This system selectively caps assessments in certain areas and leaves them capped indefinitely until the house is sold. In **Mr. Miller's** opinion this type of system is inappropriate and unfair because over time it allows homes of identical value to be taxed at dramatically different rates. He said that he hopes the Legislature can come up with an approach to this problem that will head off such dramatic approaches to tax reform such as Proposition 13.

Senator Little asked if Proposition 13 would pass constitutional muster in Idaho. **Mr. Miller** said he is not an expert on Idaho constitutional law but that Proposition 13 has been tested at the federal level from a constitutional perspective and was determined to be valid under the federal Constitution.

In response to a question from **Senator Goedde** regarding whether sales tax or property tax were the most unfair, **Mr. Miller** said that in his opinion the sales tax is the more fair of the two. This is because it comports with people's immediate ability to pay. In other words you only buy what you can afford. He said that it is also reasonable to have a system that relies on a variety of taxes to build a revenue base.

Mr. Miller, in response to a question from **Senator Werk** regarding charging sales tax on groceries, said that the extent to which exemptions are created in any taxing scheme, the greater the number of exemptions, the greater the complexity of the plan. There often are compelling reasons to have exemptions from taxes. The problem with a sales tax as implemented in a state like Idaho is that the base is not broad enough. He said that most sales taxes get more directly at goods than they do services. One serious criticism of the sales tax is that it tends to be regressive because it hits lower income people more than higher income people. Part of the reason for this is because higher income people consume more services than lower income and Idaho does not tax many services.

In general the global movement in consumption taxation is toward value added taxation. Every industrialized nation in the world has a value added tax except the United States. The reason for this movement is because it taxes services as well as the sale of goods at the consumer level.

To alleviate the problem of overtaxing low income people, many states have implemented a type of rebate system instead of establishing exemptions. This could be done through a credit system on people's income tax that would be more significant than the grocery credit Idaho offers. He said this type of credit could also be indexed for inflation.

Senator Pearce asked if there is a way to tax stocks and bonds in a way similar to property tax. **Mr. Miller** said there are some states that have some sort of intangible property tax on items like this. The difficulty with this type of system, in his opinion, would be enforcement. There has to be some way of knowing who owns what. This is another reason why the property tax is not an ideal tax. The easiest thing to tax with property tax is real property because it is not going anywhere and is easier to keep track of. Other people have their wealth tied up in other forms of property that are more difficult to catalog and that contributes to the inequity of the system.

Mr. Miller said that another problem with the property tax is that it does not take into account mortgages or true wealth. It looks at what you own but not your equity in what you own.

Mr. Miller admitted that there are many problems with the tax but without starting from scratch, it seems to be fairly rational and is better than a lot of other systems that exist.

Ms. Zoe Cooley - Troy

She said she appreciated this committee giving her the opportunity to speak and added that she is also learning a lot by being present.

Ms. Cooley said that she prefers as fair and balanced system of taxation as possible. Property taxes serve many needs and can be used by local entities to fund local programs. Sometimes state laws impede local initiatives. She said she would prefer that state law protect the rights of communities to tax themselves for a community benefit. There are built in safeguards for this process including putting the proposal before the voters. State law should respect and support improvements proposed by and for a local district.

At the state level, the Legislature should be meeting its obligation to all citizens by

providing funding for schools, universities and for health and welfare programs.

Ms. Cooley stated her support for making the state income tax more progressive and raising more revenue from the very well-to-do. The former tax cuts for the wealthiest should be rescinded. Loopholes for corporations and for highest income taxpayers should be closed. We need a better balance in our taxing system since property tax and sales tax can create the greatest burden for people of lesser means. **Ms. Cooley** said that property tax has a role in the taxing structure but it should be a balance role.

Mr. Tom Stroschein - Latah County Commissioner

He agreed with what **County Commissioner Kimmell** has said earlier. **Mr. Stroschein** stated that local communities need to be able to make their own decisions on where and how to tax. In his opinion local options taxes are a good place to start in order to give local officials an opportunity to make proper decisions. He suggested expanding the local option tax to include ½ cent for property tax relief and another ½ cent for all other services.

He said that the Latah County economic tax base is about 50% because many organizations and businesses, such as the university and public schools, do not pay taxes. This almost doubles the load on property owners because there is no other option. They really need alternatives.

Mr. Stroschein said that Latah County has 1,400 plus exemptions. He was appalled by that and they are going to look at them more closely. In his opinion people that belong to many of these exempt organizations would be willing to shoulder some of the tax responsibility.

Senator Goedde asked if he suggested using the other ½ cent of local option tax for capital expenditures rather than M & O. **Mr. Stroschein** said that was a place to start. The framework has been laid with the jail in Nez Perce County and he hopes to expand on that. **Senator Goedde** noted that the local option tax in Kootenai County has reduced property taxes by \$4.5 million.

In response to a question from **Representative Jaquet**, **Mr. Stroschein** said that he would support using part of the local option for public transit that would be considered maintenance and operation.

Senator Corder asked how many acres in the area are owned by nonprofit organizations. **Mr. Strochein** said he did not know but that the 1,400 exemptions he mentioned above are only for nonprofits, they do not include agricultural exemptions.

Senator Little asked if it is not easier during Board of Equalization hearings to have specific guidelines that are required by the state. Is it not easier for them to say these are the rules for valuation of property as required by the state instead of having a lot of leeway. **Mr. Strochein** said that it is necessary for them to have certain guidelines and in some decisions it is frustrating when proper guidelines do not exist. Equity is very important. He would also like to have guidelines on exemptions.

Mr. Don Palmer - Finance Director for the City of Moscow

He explained that the city of Moscow's profile is that it has at least one-half of the assessed value of the county. The city collects about \$3.2 million of property taxes for general government services and another \$500,000 of voter approved bonds for a fire station and an additional swimming pool. Of that \$3.2 million, the city supports \$4.6 million in police and fire services. In other words, property taxes do not cover the full cost of safety and a user fee cannot be charged for these services. Other ways to collect those funds is through intergovernmental grants, state shared revenues and the like.

Mr. Palmer stated that the advantage of property taxes is that it provides the local citizens an option to vote on specific services.

He agreed that local option taxes would give the city an advantage because it would allow them to provide other funding for local needs. Franchise fees are also another option to help the community. This would help make up the difference of what is lost due to all of the exemptions that exist. In his opinion franchise fees are a very fair tax because they can be charged regardless of whether the property is exempt.

Mr. Rich Levensgood

He said that he spent many years in Colorado under a tax system that he suggested the committee take a look at. He stated that in his opinion the market based nature of the Idaho system is better than a Proposition 13 system. Colorado went through something similar to Proposition 13 that took years to get equalization. He asked if

the Legislature has ever considered addressing a system whereby local property tax option is given to local government with the state getting revenue from the sales tax. In Colorado cities and counties have the ability to levy at 4%.

Mr. Levensgood noted that of the sales tax the state receives from the city of McCall, they only get 5% of it back in revenue sharing. In his opinion, that should be 50% and they should be able to run the entire city with sales tax revenue alone. This is not true because of existing state law. All resort counties or cities would benefit from a change in this law.

Mr. Paul Minada

He is retired and his property taxes increased 25% in the last two years. In his opinion the Legislature is to blame for a lot of this problem. One reason for this is because the state does not fund schools at an adequate level. The State Legislature is mandating programs to counties that result in property owners having to pay for them through property taxes.

In his opinion the tax break given by the state a few years ago did nothing to reduce the 25% increase he received in his property taxes.

He also suggested removing the sales tax from food and charge it on services.

Senator Goedde explained that the state general fund spent \$1 billion to fund public education. **Mr. Minada** said that education is the most important thing the state can offer. It will help determine the future of the state. Without an educated population, businesses are unlikely to locate here. **Senator Goedde** said that his problem with the public education budget is the lack of accountability. Teachers are not paid for what they produce, they are paid just to be in the classroom. **Mr. Minada** agreed that making teachers accountable and paying them based on productivity is important.

Mr. Walter Steed

He spoke regarding sales tax exemptions that are given to services. **Mr. Sneed** said he is a consultant, he sells service. Two years ago he changed his contracts to say plus applicable sales tax because once that exemption is repealed, he will have to pass that charge on to his clients just as a plumber will or a doctor. He wanted the committee to realize that this money will be paid by the consumer.

Mr. Marty Peterson - University of Idaho

Thanked the committee for visiting and holding the meeting at the University.

Representative Lake thanked him for having the committee and thanked the technical staff present that ran the microphones for their assistance.

The meeting was adjourned at 3:00 p.m.